

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3063-01
Bill No.: HB 1174
Subject: Motor Vehicles, Revenue, Taxation and Revenue - General, Taxation and
Revenue - Sales and Use
Type: Original
Date: January 8, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$38,902,693)	(\$79,600,000)	(\$82,000,000)
Highway Fund	(\$37,740,000)	(\$77,626,000)	(\$79,994,000)
Transportation Fund	(\$510,000)	(\$1,049,000)	(\$1,081,000)
Total Estimated Net Effect on <u>All</u> State Fund	(\$77,152,693)	(\$158,275,000)	(\$163,075,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
CITIES	(\$7,650,000)	(\$15,735,000)	(\$16,215,000)
COUNTIES	(\$5,100,000)	(\$10,490,000)	(\$10,810,000)
Local Government	(\$12,750,000)	(\$26,225,000)	(\$27,025,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education** and the **Department of Higher Education** stated this legislation would not have an impact on their agencies.

Officials from **Office of Administration - Division of Budget and Planning** assume the effective date of the legislation is January 1, 2003. The revenue loss is half what collections would have been over the full year. The growth in motor vehicle sales and use tax for FY 2002 and beyond is consistent with the consensus revenue estimate announced on December 14, 2001. This proposal would not have an impact on the Office of Administration.

Revenue loss with a 2-cent reduction, effective January 1, 2003:

Motor Vehicle Sales Tax - GR \$38,700,000

Motor Vehicle Sales Tax - Highway \$38,700,000

Motor Vehicle Use Tax - Highway \$12,300,000
\$51,000,000

74% Highway Fund = \$37,740,000

1% Transportation = \$ 510,000

15% Cities = \$ 7,650,000

10% Counties = \$ 5,100,000

Revenue loss with a 2-cent reduction, effective FY 2004:

Motor Vehicle Sales Tax - GR \$79,600,000

Motor Vehicle Sales Tax - Highway \$79,600,000

Motor Vehicle Use Tax - Highway \$25,300,000
\$104,900,000

74% Highway Fund = \$77,626,000

1% Transportation = \$ 1,049,000

15% Cities = \$15,735,000

10% Counties = \$10,490,000

ASSUMPTION continued

Revenue loss with a 2-cent reduction, effective FY 2005:

Motor Vehicle Sales Tax - GR \$82,000,000

Motor Vehicle Sales Tax - Highway \$82,000,000

Motor Vehicle Use Tax - Highway \$26,100,000
\$108,100,000

74% Highway Fund = \$79,994,000

1% Transportation = \$ 1,081,000

15% Cities = \$16,215,000

10% Counties = \$10,810,000

Officials from the **Department of Highway and Transportation** assume the effective date of the legislation is January 1, 2003. Adverse effect on Road Fund revenues expected beginning in February 2003. Assumed 3% growth rate on sales/use tax. The total estimated fiscal impact on the Road Fund will be a decrease of: \$35,420,000 in FY03; \$87,558,000 in FY04; and, \$90,185,000 in FY05. The State Transportation Fund will have a decrease of: \$348,000 in FY03; \$861,000 in FY04; and, \$887,000 in FY05. The estimated loss of income to counties & municipalities will be: \$10,087,000 in FY03; \$24,934,000 in FY04; and, \$25,682,000 in FY05.

Officials from the **Department of Revenue** (DOR) stated this proposed legislation reduces the state sales tax rate on Motor Vehicles to 2% and requires the tax to be paid by the seller, instead of the purchaser, which is what DOR is accustomed to. The current MITS logic will need to be maintained in order to handle amended returns. The new state tax rate for motor vehicles will require program changes to create a new location in the MITS system in addition to programs that handle the distribution of the new location for the 2% motor vehicle sales tax. The above changes to the MITS system will also impact the registration system, return pull, online programs, protest, distributions and estimated assessments. These program changes will require 2,768 hours of programming at a total cost of \$92,340.

Division of Taxation

Information Technology cost for the proposed legislation will be \$92,340.

The State Data Center cost for the proposed legislation will be \$18,013.

Business Tax: No impact.

Personal Tax: No impact.

General Counsel: None noted.

For the purposes of this fiscal note, Oversight has used the **Office of Administration - Division of Budget and Planning** estimated revenue loss.

ASSUMPTION continued

This proposal would result in a decrease in total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
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HIGHWAY FUND

Loss - Highway Fund

Reduction in Sales/Use Tax	(\$51,000,000)	(\$104,900,000)	(\$108,100,000)
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Costs-Department of Revenue (DOR)

Information Technology/State Data Center	(\$110,353)	\$0	\$0
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**ESTIMATED NET EFFECT ON
HIGHWAY FUND**

<u>(\$51,110,353)</u>	<u>(\$104,900,000)</u>	<u>(\$108,100,000)</u>
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GENERAL REVENUE FUND

Loss - General Revenue Fund

Reduction in Sales/Use Tax	(\$38,902,693)	(\$79,600,000)	(\$82,000,000)
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**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

<u>(\$38,902,693)</u>	<u>(\$79,600,000)</u>	<u>(\$82,000,000)</u>
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FISCAL IMPACT - Local Government

FY 2003 (6 Mo.)	FY 2004	FY 2005
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LOCAL GOVERNMENTS

Loss - Cities

Reduction in Sales/Use Tax	(\$7,650,000)	(\$15,735,000)	(\$16,215,000)
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Loss - Counties

Reduction in Sales/Use Tax	(\$5,100,000)	(\$10,490,000)	(\$10,810,000)
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**ESTIMATED NET EFFECT ON
LOCAL FUNDS**

<u>(\$12,750,000)</u>	<u>(\$26,225,000)</u>	<u>(\$27,025,000)</u>
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FISCAL IMPACT - Small Business

This proposal would benefit small businesses purchasing vehicles, and vehicle dealerships.

DESCRIPTION

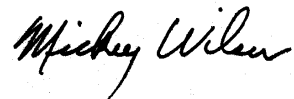
This bill reduces the state sales and use tax rate on motor vehicles which are purchased or leased from 4.225% to 2.225%. Local sales and use taxes will still apply to the sale.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

The proposal would have an effective date of January 1, 2002.

SOURCES OF INFORMATION

Department of Revenue
Department of Transportation
Department of Elementary and Secondary Education
Department of Higher Education
Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Acting Director

January 8, 2002